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### CHARACTERISTICS AND PERFORMANCE OF SMALL AND MEDIUM-SIZED BUSINESSES IN AUSTRALIA

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##### INTRODUCTION

Small and medium-sized businesses play a vital role in the Australian economy. They represented around 2 million actively trading businesses in June 2007 and employed around 42% of total employed persons in Australia. They are estimated to have contributed around 46% of Australia's Gross Domestic Product (GDP) in 2006. In order to find out more about this sector of the economy the Australian Bureau of Statistics (ABS) has developed a Business Longitudinal Database (BLD) and this article reports on the findings of an investigation into the association between business performance and business characteristics.

##### BUSINESS CHARACTERISTICS

Businesses can be characterised in many ways. The current study classified businesses according to their number of employees, age, number of locations, whether or not they are home-based, whether they are locally or foreign-owned, whether they are exporters or importers, by industry, marketing strategies, employment conditions, use of information technology and the level of innovation in the business.

##### BUSINESS PERFORMANCE

The performance of a business can be looked at in terms of how that business has performed in the past compared to similar businesses, and how it can be expected to perform in the future. Performance can be measured in many ways such as market share or quality of the products or services, but as all businesses have to keep accounts it is easiest to use information derived from the accounting system such as total sales, total income, total expenditure, salaries and wages, profit, return on equity, turnover and net income. This type of information is available in the BLD and has been used in this investigation.

Two measures of business performance are **value added** and **labour productivity**. A proxy for value added has been measured as the difference between the firm's sales and its purchases of raw materials and outside services. Labour productivity is defined as output per unit of labour input or value added per worker-hour and is relatively easy to compute. This study used value added per unit of labour.

##### RESULTS FROM THE BLD STUDY

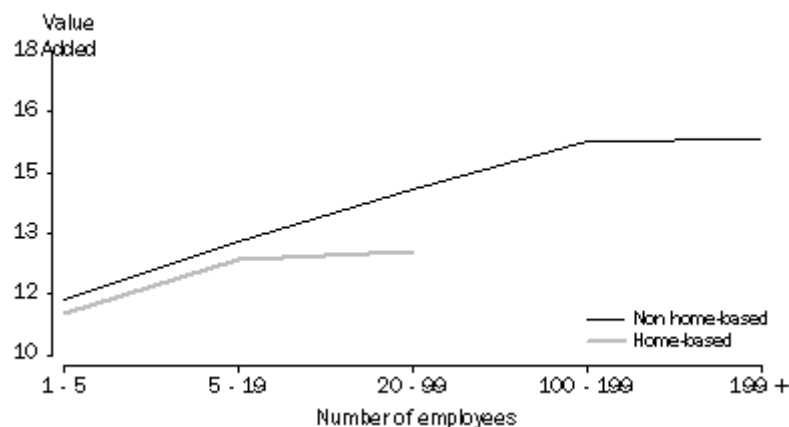
The study used a sample of 5038 observations from the 2005-06 BLD to investigate the association between business performance and business characteristics, only employing businesses were used for this analysis. The BLD sample is composed of the following industry distribution; Agriculture, forestry and fisheries (23%), Manufacturing (16%) and Wholesale trade (9.5%). These three industries represented almost half of the sample. Other industries were Retail trade (7.3%), Accommodation and food services (6.5%), Health care and social assistance (6.3%), Rental, hiring and real estate services (6.1%), Education and training (5.9%), Construction (5.3%), Transport, postal and warehousing (5.3%), Information media and telecommunication (4.8%) and Mining (4.1%).

### ***Home-based businesses***

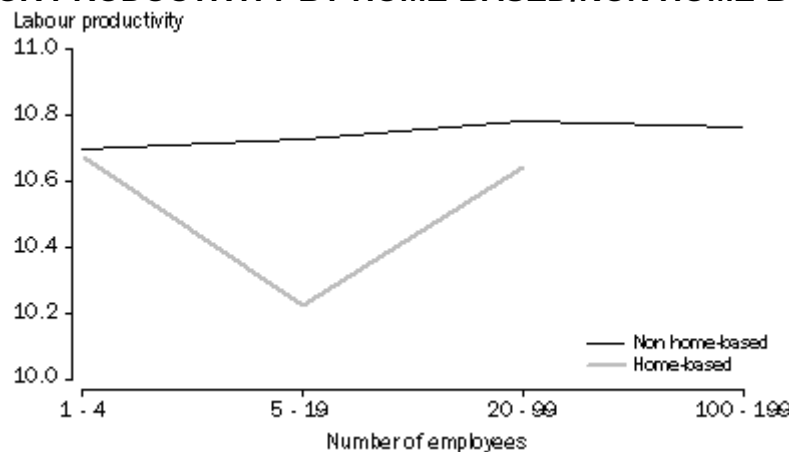
Home-based businesses account for 35.6% of the BLD sample used for this analysis and they tend to be either non-employing or micro-businesses. Of the home-based businesses 40% of them were non-employing. Among the employing businesses, 47% had 1 to 4 employees with the remaining 13% having more than 4 employees.

Graphs 1 and 2 compare the value added and labour productivity of home-based businesses against other business entities. Home-based businesses appear to have lower value added and lower labour productivity.

**GRAPH 1 VALUE ADDED BY HOME-BASED/NON HOME-BASED BUSINESS**



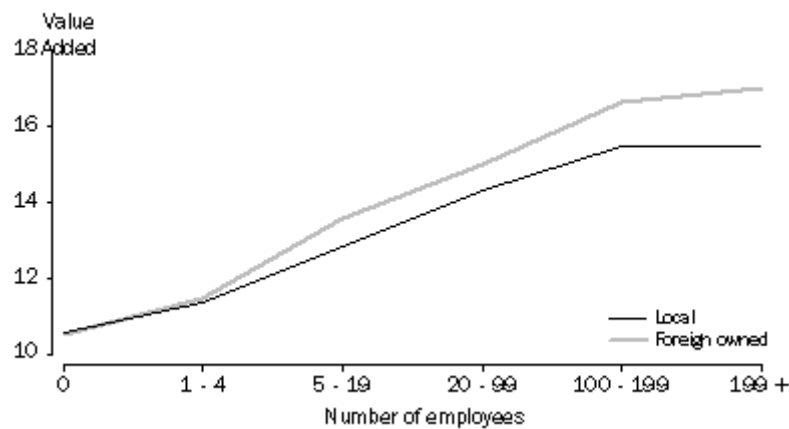
**GRAPH 2 LABOUR PRODUCTIVITY BY HOME-BASED/NON HOME-BASED BUSINESS**



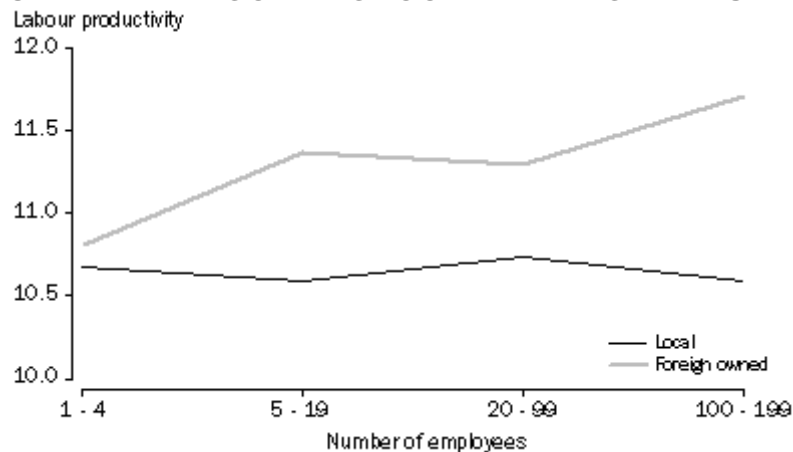
### ***Foreign ownership***

Only 5.4% of businesses report as having some kind of foreign ownership. Graphs 3 and 4 show the relationship between value added and labour productivity with foreign ownership of these businesses. When the size of the business increases, foreign owned businesses add more value and are more productive compared to 100% locally owned businesses.

**GRAPH 3 VALUE ADDED BY OWNERSHIP**



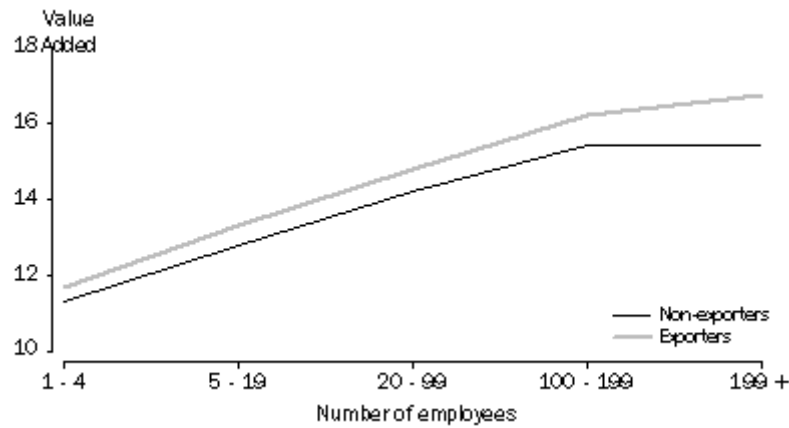
**GRAPH 4 LABOUR PRODUCTIVITY BY OWNERSHIP**



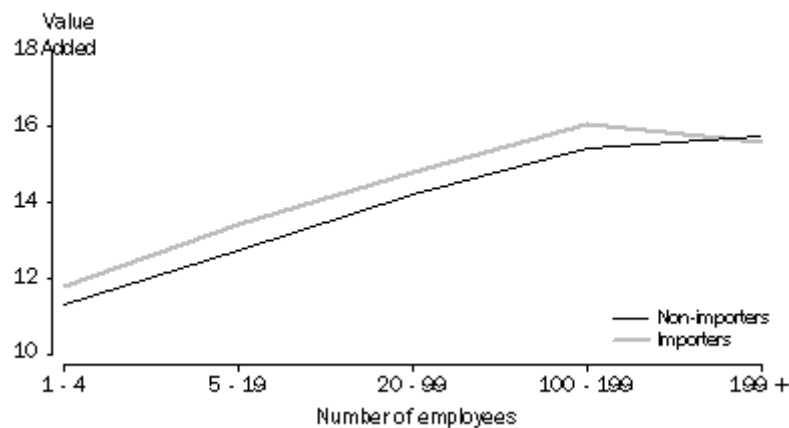
### ***Importers and exporters***

In the sample, 13% of businesses were exporters and 13.6% were importers. Businesses that export or import appear to perform better than non-exporting or non-importing businesses. According to graphs 5 and 6, those businesses involved in exporting and importing add more value than non-exporters or non-importers. Exporters are adding value at a slightly higher rate than non-exporters when the size of the business increases.

**GRAPH 5 VALUE ADDED BY EXPORT STATUS**



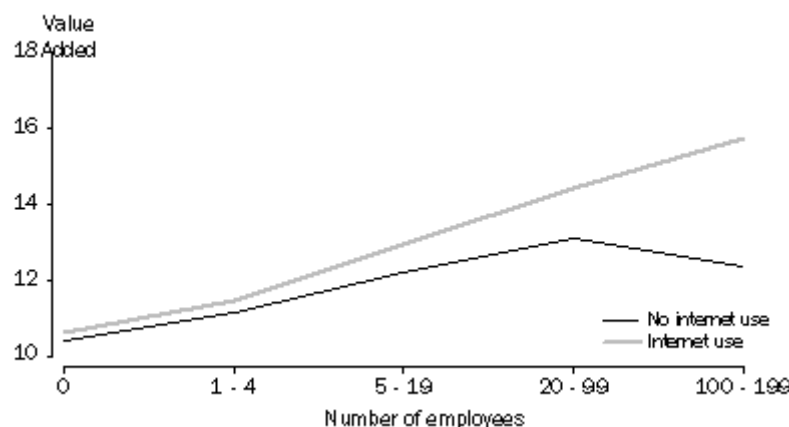
**GRAPH 6 VALUE ADDED BY IMPORT STATUS**



### **Internet use**

Most businesses use information technology, with 74.8% of businesses using the internet and 41.5% of them having a web presence for their business. It appears that businesses who use the internet at their business are more productive than businesses without the internet. Graph 7 shows those businesses with internet add value at an increasing rate when the size of the business increases. Similarly those businesses with internet facilities are more productive than those businesses without the internet.

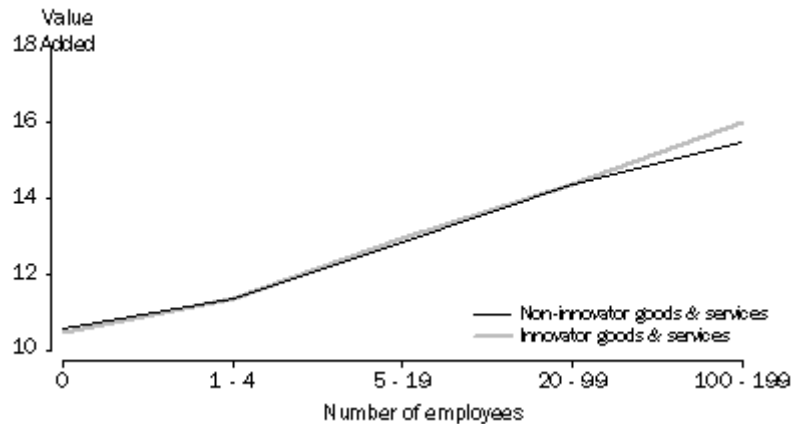
**GRAPH 7 VALUE ADDED BY INTERNET USE**



### **Innovation**

Around 20% of businesses in the sample are involved in some type of innovation activity, with 18.5% of those businesses involved in goods and services innovation, 22.9% involved in operation process innovation, 19.7% involved in managerial process innovation and 15.4% with marketing related innovation. Graph 8 shows there is very little difference between innovators and non-innovators, and this is the same even when considering the different types of innovation.

**GRAPH 8 VALUE ADDED BY GOODS & SERVICES INNOVATION**



## HOW BUSINESS CHARACTERISTICS RELATE TO VALUE ADDED

A regression analysis was conducted to determine how business characteristics relate to value added. It was found that the age of a business, size of business, whether foreign owned, exporters, importers and use of internet all had a positive association with value added. On the other hand, home-based businesses and those with marketing related innovation had a negative effect on value added.

The results indicate that small and medium sized businesses add more value to their business the longer they have been in operation. This suggests they become better at their core business over time or they may develop economies of scale and add more value to the business through accumulation of know-how.

Businesses with some sort of foreign ownership appear to be adding more value compared to locally owned businesses. Those involved in exporting or importing appear to be adding more value to their business compared to non-exporters or non-importers, suggesting they need to be more efficient to compete with other countries.

Two business focus factors found to be significantly associated with value added performance measures were financial measures and operational measures. Financial measures play a key role when assessing performance. Having a good understanding of expected profits, sales, business growth and return on investment are considered as financial measures. Similarly operational measures such as asset utilisation, on-time delivery are important factors to perform better in a business. However, the other two business focus factors of cost and quality measures are not significantly related to value added.

## HOW BUSINESS CHARACTERISTICS RELATE TO LABOUR PRODUCTIVITY

A regression analysis was conducted to determine how business characteristics relate to labour productivity. It was found that the age of a business, size of business, whether foreign owned,

exporters, importers, use of internet, financial measures, operational measures and focusing on export markets all had a positive association with labour productivity. On the other hand, home-based businesses had a negative correlation with labour productivity.

The same factors that influenced value had a similar effect on labour productivity. Likewise, business focus factors that were significantly associated with labour productivity performance measures were financial measures and operational measures. However, cost and quality measures variables are not significantly related to labour productivity but may show a different picture over time.

## CONCLUSION

Results from this analysis of BLD data indicate that both value added and labour productivity are positively and significantly associated with age of business under current ownership, foreign ownership, exporting, importing, use of internet, assessing financial measures and assessing operational measures of firm for small and medium sized businesses.

This study was conducted as a cross-sectional analysis, and as more data becomes available from the BLD then a panel or longitudinal analysis would be more revealing as other studies have shown that business characteristics such as innovation activity and employment training can have a lagged impact on current business performance.

## FURTHER INFORMATION

Information on the ABS Business Longitudinal Database can be found at:

**[Business Longitudinal Database, Expanded CURF, Australia, Technical Manual, 2004-05, 2005-06 and 2006-07 \(cat. no. 8168.0.55.002\)](#)**

**[Microdata: Business Longitudinal Database, Expanded CURF, Australia, 2004-05, 2005-06 and 2006-07 \(cat. no. 8168.0.55.001\)](#)**

For further information on the analysis in this article and the variables used please contact Tala Talgaswatta on Canberra (02) 6252 5376 or email <[tala.talgaswatta@abs.gov.au](mailto:tala.talgaswatta@abs.gov.au)>

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